



YOUR IMPACT THROUGH MICROFINANCE: INDIA

IMPACT REPORT, OCTOBER 2020

WEATHERING THE STORM

The COVID-19 pandemic and subsequent mitigation measures have significantly disrupted the Indian microfinance sector. From 23 March 2020, the Government of India enforced a lockdown and severely restricted the operation of businesses, with the exception of 'essential services' and, as a result, many small businesses were shut in the first half of 2020. Those who could work from home, worked from home but for contract workers, daily wage labourers and small-business owners, the impact was grim. Incomes plummeted due to mobility restrictions and significant disruptions to critical supply chains, exacerbated by a shutdown of all transportation services. India's GDP contracted by 23 per cent in the second quarter of 2020 as the severe lockdown brought economic activity to a halt. Since 1 June, India has gradually started to reopen its economy outside of Containment Zones, despite confirmed cases surpassing 182,000 and reaching more than 4.7 million by mid-September.

Microfinance institutions (MFIs) have also been severely affected. The Reserve Bank of India (RBI) initially required MFIs to offer a three-month moratorium to borrowers, which was later extended until 31 August 2020.

However, few financial institutions lending to MFIs provided the same moratoriums on their loans, creating a liquidity squeeze on the MFIs as their operations halted and repayments from their borrowers stalled. Two of Opportunity's MFI partners had to lay off staff to reduce operating costs. Opportunity's subsidiary in India (Dia Vikas Capital) negotiated tirelessly with the Finance Minister, the Office of the Prime Minister, and lenders to the MFIs in order to secure repayment moratoriums from more than 90 per cent of lenders for the period March–June.

During lockdown, Opportunity's program partners were able to maintain phone contact with borrowers to provide information regarding their loans and COVID-19, with one partner launching a toll-free 24-hour medical helpline, providing tele-medicine consultations to borrowers, employees and their families. Health information was provided through WhatsApp mass messaging, videos, posters and mobile clinics. Food, water, and health kits containing gloves, masks, soap, handwash and hand sanitizer were distributed to microfinance clients, villagers and displaced migrant labourers. Program partners' workplaces were made safer through the provision of staff training, hand sanitizer, masks, gloves and increased cleaning.

"COVID has created a whole stack of challenges that have made us change what we are doing so we continue to focus on what we do is as efficient as possible to ensure that our clients, who need us more than ever, are in fact being able to be served."

MEREDITH SCOTT

Chief Executive Officer

Opportunity International Australia



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In June, Opportunity's program partners restarted their operations with repayment rates varying from 34 per cent to more than 90 per cent. These variances are attributed to the different geographies of operations with economies in rural areas being less impacted by COVID-19 than urban areas. Most of Opportunity's program partners have managed to make repayments to lenders, with only two defaulting. The RBI has provided special liquidity facilities to MFIs to help tide them over during the crisis. Some partners have begun to offer INR10,000–20,000 (A\$187–374) top-up loans to clients to stimulate the recovery of their small businesses.

For more than a decade, Dia Vikas has worked with MFI program partners to build their capacity to weather the storms through ensuring stable financing, well-established technology platforms, and strong relationships with the communities to whom they provide financial services. With financial support from the partners, the women they serve have shown themselves to be resilient through past crises, bouncing back after natural disasters and economic shocks such as the 2016 demonetization.

5,331,590

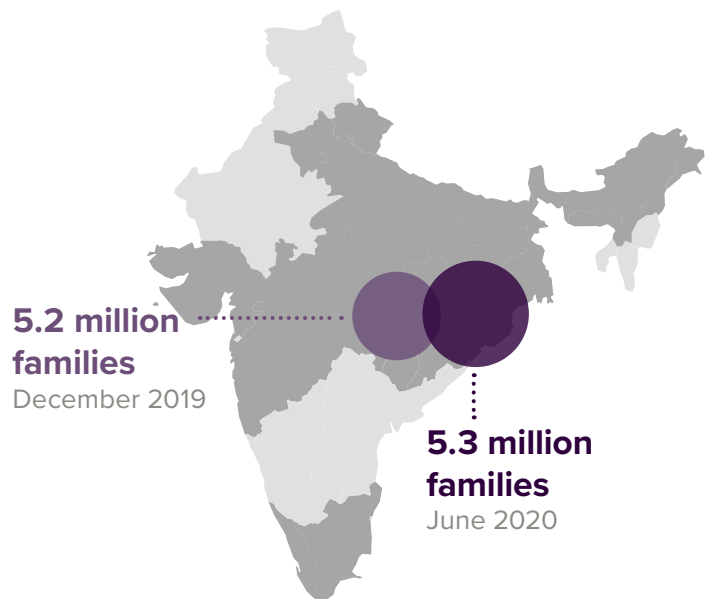
families in India are currently accessing small loans and financial services

109%

operational sustainability*

2.36%

portfolio at risk (PAR)*



OCTOBER REPORT

Opportunity International Australia's program partners in India are **reaching 5,331,590 families** with small loans and financial services. This is 106,228 more families than in December 2019 and the slower growth in the number of active borrowers is directly attributable to the negative economic impact due to COVID-19.

Efforts will be made in the second half of 2020 to reinstate borrowers that had viable businesses before the economic downturn due to COVID-19.



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PARTNER PERFORMANCE

Overall, Opportunity's program partners in India have maintained an **operational self-sustainability of 109 per cent**, meaning they have managed to cover the cost of their lending programs with the revenue earned from its lending program. During this period of pressure on their revenue due to borrowers not being able to make their repayments on time or in full, the microfinance institutions have been able to reduce their operating expenses and negotiate delayed repayments to their creditors, including Opportunity.

Performance of the smaller and medium program partners was weaker than the large partners who had stronger stable backup to endure shrinking liquidity.

Portfolio at risk which measures microfinance institutions' loan portfolio quality **has worsened slightly to 2.36 per cent** compared with only two per cent in December 2019. Again, this is directly attributed to borrowers being unable to make their repayments on time mainly due to the economic downturn and their loss of income as a result of public health measures put in place to constrain the spread of COVID-19..

PARTNER PORTFOLIO SUMMARY

	FAMILIES REACHED	LOANS OUTSTANDING A\$'000	OPERATIONAL SUSTAINABILITY*	PORTFOLIO AT RISK >30 DAYS*
ESAF/NESFB CASHPOR SATYA PAHAL MARGDARSHAK	4,470,444	\$2,895,925	112%	2%
SAMBANDH ADHIKAR SAMHITA	703,610	\$263,036	99%	1%
GO FINANCE ANNAPURNA SHIKHAR PRAYAS	157,536	\$91,270	92%	
OVERALL	5,331,590	\$3,250,231	109%	2.36%

Data to June 2020

* **Portfolio at risk (PAR)** is a stringent measure of a microfinance institution's loan portfolio quality. The portfolio at risk calculates the total value of outstanding loan balances for loans, for every payment that is overdue by more than 30 days. **Operational sustainability (OSS)** is the ability of an organisation to cover the costs of its lending program with the revenue earned from its lending program.



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MESSAGE FROM THE MANAGING DIRECTOR AND CEO OF DIA VIKAS CAPITAL

One major concern this year has been the spread of COVID-19 pandemic across the world. In India as well, COVID-19 is spreading rapidly. To stem rampant spread, the Government announced lockdowns across the country beginning in March which has affected the economy adversely. Dia partners have risen to the occasion and have supported their clients in every way possible during this pandemic.

Most of our partners like NESFB, Sambandh, Cashpor, Pahal, Satya etc., have provided top-up loans to clients to help them kick start their economic activities again.

ESAF SFB has also introduced a 'COVID loan' for their clients. People living in poverty, being the most vulnerable, are likely to be impacted the most by this pandemic which will in turn impact the MFIs.

Dia is monitoring the macro situation closely and remains committed to provide all possible support to its partners to mitigate the adverse impact on their operations.

We would like to take this opportunity to thank all our stakeholders for their continuous engagement, commitment and support during the year, which has helped Dia offer a hand up to the poor in their journey towards a better future."

SANEESH SINGH

Managing Director and CEO
Dia Vikas Capital

IMPACT OF COVID-19 ON SMALL BUSINESSES

The consulting firm MicroSave Consulting studied the impact of COVID-19 pandemic on small businesses in India, with Opportunity's program partner Mardarshak participating as a research partner. The study looked at coping strategies of small-business owners during lockdown and made recommendations to Opportunity's program partners to support them.

Due to the COVID-19 travel restrictions, there was a decline in demand for goods and services with customer numbers falling significantly, as well as a disruption in the supply of stock making it difficult for small businesses to restock – particularly in rural areas.

Transport costs have gone up significantly as small-business owners need to go and pick up their stock, whereas previously supplies were delivered to them. COVID-19's impact on both demand and supply resulted in a decline in income, threatening the survival of many small businesses with small-business owners tapping into their savings to cover the cost of basic utilities, including electricity and water.



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At the same time, the study found that the supply of credit to small-business owners from their suppliers had declined and recommended that FinTechs should be encouraged to collaborate with MFIs to get faster loans to small-business owners using digital financial systems. Almost 100 per cent of loan disbursements from Opportunity's program partners in India are made directly into the bank accounts of borrowers. Partners are also experimenting with cashless repayments from borrowers. New payment channels have been introduced for program partners' clients through telecom companies, payment banks, payment apps and gateways including universal payment interface and Aadhar enabled payments etc.

From the borrowers' side, a third of small-business owners started using social media (WhatsApp and Facebook) to communicate with suppliers and to take orders from customers. Cash transactions declined and digital payments increased.

Many micro, small and medium enterprises are missing out on COVID-19 relief packages provided by the government because they are either unregistered (69%) or unaware of the support on offer. The study recommended that local government bodies and MFIs could collect data on unregistered small-business owners at the village level in order to get them registered and informed about support that they can access to help them get through COVID-19.

For more information, past reports and client stories, please visit our website:
www.opportunity.org.au/your-impact

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